

REVIEW OF THE MEDICAL
EQUIPMENT PURCHASED FOR THE
PRIMARY HEALTHCARE CENTERS
ASSOCIATED WITH PARSONS
GLOBAL SERVICES, INC.,
CONTRACT NUMBER
W914NS-04-D-0006

SIGIR-06-025
JULY 28, 2006

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

July 28, 2006

MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT
OFFICE
COMMANDING GENERAL, JOINT CONTRACTING
COMMAND – IRAQ/AFGHANISTAN
COMMANDING GENERAL, GULF REGION DIVISION,
U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Review of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006, (SIGIR-06-025)

We are providing this audit report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which requires that we provide for the independent and objective conduct of audits, as well as leadership and coordination of and recommendations on policies designed to promote economy, efficiency, and effectiveness in the administration of Iraq relief and reconstruction programs and operations and to prevent and detect waste, fraud, and abuse.

We considered comments from the Iraq Reconstruction Management Office, the Joint Contracting Command-Iraq/Afghanistan, and the Gulf Region Division, U.S. Army Corps of Engineers on the draft of this report when preparing the final. Their comments are addressed in the report where applicable, and copies of their comments are included in the Management Comments section of this report.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Joseph T. McDermott at (703) 343-7926, or by email at joseph.mcdermott@iraq.centcom.mil; or Mr. Cliff Spruill at (703) 343-9275, or by email at clifton.spruill@iraq.centcom.mil. For the report distribution, see Appendix E.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a stylized flourish at the end.

Stuart W. Bowen, Jr.
Inspector General

cc: Distribution

Special Inspector General for Iraq Reconstruction

SIGIR-06-025

July 28, 2006

Review of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006

Executive Summary

Introduction. On March 25, 2004, contract W914NS-04-D-0006, a cost-plus award fee type contract, was awarded to Parsons Delaware, Inc. The executing contractor's name was changed to Parsons Global Services, Inc. (Parsons) by a contract amendment on April 8, 2005. Under this contract Parsons was required to construct 150 Primary Healthcare Centers (PHCs) as well as provide and install 151 medical and dental equipment sets for each of the 150 PHCs as well as a medical training academy. The total definitized cost of the equipment was approximately \$70 million.

In April 2006, the Special Inspector General for Iraq Reconstruction (SIGIR) reported on the construction phase of this contract¹ and issued an interim report² to alert responsible U.S. government agencies management to concerns we noted on the accountability for and utilization of the medical equipment shortly after this audit began. These concerns included: (1) the lack of written plans for the acceptance, storage, and use of the 131 medical equipment sets to be delivered by Parsons in April 2006 that were in excess to the current PHC needs as a result of descoping the number of PHCs to be constructed from 150 to 20, and the non-construction of the medical training academy (whose construction was not part of the Parsons contract); (2) the need to ensure U.S. government accountability of the equipment upon delivery to the Iraqi Ministry of Health warehouse in Erbil, Iraq by Parsons; and (3) U.S. government's inability to ensure proper protection and accountability of equipment to be stored in an Iraqi warehouse.

Objectives. The main objectives of the audit were to determine whether medical equipment associated with Primary Healthcare Centers (PHCs), Parsons Contract Number W914NS-04-D-0006, were properly accounted for; and to identify the impact of the descoping of the PHCs construction.

¹ SIGIR Audit Report on *Management of the Primary Healthcare Centers Construction Projects* (SIGIR-06-011, April 29, 2006).

² SIGIR *Interim Audit Report on the Review of the Equipment Purchased for Primary Healthcare Centers Associated with Parsons Global Services, Contract Number W914NS-04-D-0006* (SIGIR-06-016, April 4, 2006).

Specifically this report addresses the following questions:

- Where are the medical equipment sets located and which organizations maintain physical control of the assets?
- How and when will the U.S. government transfer the equipment?
- What are the “lessons learned” from the management and execution of the non-construction process and practices related to this contract?

Results. Twenty of the 151 medical equipment sets procured were physically located at the sites of 20 PHCs that were fully or partially constructed by Parsons. Medical equipment sets for 6 of these PHCs were transferred on March 15, 2006, to the Iraqi government along with the associated PHCs. The remaining 14 medical equipment sets at the PHC sites are still in the custody of the U.S. government. The U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO) in coordination with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) decided not to store any medical equipment sets in the Iraqi Ministry of Health warehouse, but to require Parsons to deliver all 131 extra equipment sets to the U.S. government-controlled warehouse located in Abu Ghraib, Iraq, which is contractor-operated by Public Warehousing Company (PWC) Logistics. This decision alleviated the concern raised in our Interim Report over security of the equipment if stored in an Iraqi warehouse.

On May 10, 2006, we conducted a physical inventory of the medical equipment sets that Parsons had delivered to the PWC Logistics warehouse, and this report therefore discusses the number and condition of the 71 medical equipment sets we verified as being in the warehouse as of May 10, 2006. While, Parsons had delivered 71 full or partial medical equipment sets to the warehouse in Abu Ghraib as of May 10, 2006, we found that the U.S. government had not implemented proper accountability procedures for the receipt, acceptance or storage of these medical equipment sets upon arrival at the warehouse. Neither JCC-I/A nor GRD-PCO took appropriate actions to ensure that Parsons medical equipment, upon delivery to the PWC Logistics warehouse, was properly inventoried, inspected, receipted, and accounted for by any authorized U.S. government representative.

Neither JCC-I/A nor GRD-PCO delegated receipt and acceptance authority for the Parsons contract to any authorized U.S. government representative. As a result no official U.S. government receipt, inspection and acceptance function was performed when the equipment arrived at the warehouse. Thus, while the U.S. government had physical custody over 71 full or partial PHC medical equipment sets delivered by Parsons to the warehouse (as of May 10, 2006); the U.S. government never established proper accountability for the equipment and does not fully know the type, quantities, and condition of equipment items that have been received. Our observation of the equipment in storage at PWC showed that 33 of 71 equipment sets (46 percent) received by the warehouse had some type of visual damage or other discrepancy noted by PWC upon arrival at the warehouse. It is unknown whether equipment may be damaged inside the crates, because they were not opened or inspected. As of June 11, 2006, the PWC Logistics automated warehouse system indicated that Parsons had delivered a total of 115 full or partial medical equipment sets to the warehouse in Abu Ghraib.

The Iraq Reconstruction Management Office (IRMO) has coordinated with JCC-I/A and GRD-PCO to obtain funding for and continue construction on the additional PHCs not completed by Parsons and intends to use the medical equipment sets in these PHCs when they are finally completed. IRMO expects that the medical equipment sets stored in the warehouse will be first allocated to these remaining PHCs upon construction completion,

with any remaining equipment sets distributed to Iraqi health centers or hospitals as needed. No formal detailed written plan yet exists that lays out the specific distribution for all of the 131 equipment sets to be delivered to the PWC Logistics warehouse.

This report discusses a significant lesson learned for future contract actions regarding the need to fully examine the impact that changes to contract terms may have on the operational and accountability requirements of ancillary supporting contracts. This report also addresses concerns over the medical equipment warranties, the training on new equipment provided by Parsons, and the accuracy of financial information on equipment-related expenditures recorded in the Corps of Engineers Financial Management System (CEFMS).

Management Actions. Management has taken steps to address some of the issues that we have identified during this audit. Specifically:

- On April 4, 2006, GRD-PCO in coordination with JCC-I/A made a decision not to have Parsons deliver any medical equipment sets to the Ministry of Health warehouse in Erbil, Iraq.
- IRMO continues to coordinate with JCC-I/A and GRD-PCO to obtain funding for continued construction of the remaining PHCs and to develop a plan for the distribution of the 131 medical equipment sets to be stored in the PWC Logistics warehouse.

Recommendations.

1. We recommend that the Director, Iraq Reconstruction and Management Office (IRMO) continue to work with GRD-PCO to develop a comprehensive written utilization and transfer plan for all of the 131 medical equipment sets stored in the warehouse.
2. We recommend that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers:
 - a. In coordination with JCC-I/A, arrange for a complete inventory and inspection of all of the medical equipment currently stored in the PWC Logistics warehouse as soon as possible. A listing of missing and damaged items should be prepared when completed.
 - b. In coordination with JCC-I/A, arrange for a knowledgeable Parsons or equipment manufacture representative to be present during the inspection of the condition of the equipment because of the sensitive and specialized nature of medical equipment.
 - c. Arrange for the proper recording of inventoried medical equipment into the appropriate government property management system.
3. We also recommend that the Commanding General, Joint Contracting Command-Iraq/Afghanistan (JCC-I/A):
 - a. In coordination with GRD-PCO, arrange for the official inspection, inventory and receipt of Parsons medical equipment still being delivered to the PWC Logistics warehouse.

- b. In coordination with GRD-PCO, obtain the completed inventory listing of all medical equipment items currently stored in the PWC Logistics warehouse and take appropriate actions to recoup from Parsons the cost of all items found to be missing or damaged.
- c. In coordination with GRD-PCO, work with appropriate equipment manufactures and/or secondary warranty grantors to clarify the status of the equipment warranties.

Management Comments and Audit Response. We received written comments on a draft of this report from IRMO, JCC-I/A, and GRD. IRMO and GRD generally concurred with the report conclusions and recommendations. JCC-I/A did not concur with our recommendation involving delegation of responsibility to DCMA for receipt/acceptance of Parsons medical equipment delivered to the PWC Logistics warehouse. JCC-I/A noted that the Memorandum of Agreement between DCMA and JCC-I/A does not include construction contracts, thus DCMA can not be delegated the receipt/acceptance function for the Parsons Contract (a construction contract). JCC-I/A did, however, indicate that an alternative is being considered that will include the PWC Logistic contractor and PCO. We consider JCC-I/A's alternative to be responsive in meeting the intent of the recommendation and have modified our final report recommendations to reflect JCC-I/A's comments regarding the Memorandum of Agreement with DCMA. Management comments and responses to the draft report are included in the Management Comments and Audit Response section of this report.

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Introduction

Background

In November 2003, \$18.6 billion was appropriated under the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan (Public Law 108-106). The law created the Iraq Relief and Reconstruction Fund (IRRF), \$18.4 billion of the appropriation was designated for Iraq. Projects in the health care sector include nationwide hospital and clinic improvements, equipment procurement and modernization, and construction of a pediatric facility.

Responsible Entities. Three U.S. government organizations have responsibility for management of the contract: U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), Iraq Reconstruction Management Office (IRMO), and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). However, during the first 21 months of the contract, the Project and Contracting Office (PCO) and the U.S. Army Corps of Engineers Gulf Region Division (GRD) were separate organizations. On December 4, 2005, the PCO was folded into the GRD. The Defense Contract Management Agency (DCMA) supports contract administration. For description of each of these organizations as well as Parsons Global Services, Inc.; Public Warehouse Company (PWC) Logistics; and the Abu Ghraib Warehouse, see Appendix D.

Contract W914NS-04-D-0006. The contract was awarded to Parsons Delaware, Inc., Pasadena, CA, on March 25, 2004. Parsons Global Services, Inc. (Parsons) is the overseas business segment for Parsons Delaware. The contract has a ceiling of \$500 million. The contract has thirteen task orders and contracted to upgrade 17 hospitals located throughout Iraq, design and construct 150 primary healthcare centers (PHC) located throughout Iraq, and repair three Ministry buildings in Baghdad. Contract task orders number 4, 11, and 12 provided for the design and construction of the 150 PHCs at a definitized cost of \$88,468,571. In addition, the three task orders provide for the delivery and installation of medical and dental equipment at each center. The list of medical equipment to be installed at each center includes x-ray equipment, hematology analyzer, exam tables, patient beds, defibrillator, EEG, ventilator, incubator, and other equipment. The list of dental equipment to be installed at each center includes dental chairs, lights, cabinets, instruments, supplies, and other equipment. The total definitized cost of the equipment for the 150 PHCs plus a medical training academy is \$70,359,014.

Medical Equipment Task Orders. The initial requirement for medical equipment sets for the PHCs was issued to Parsons by task order number 4 dated May 11, 2004. This task order was classified as a Design-Build task order that provided Parsons with a Limited Notice to Proceed to provide standard designs for Healthcare Centers. Included in this task order was a generic sample of the type and quantity of equipment to be provided, with specific equipment types/models and procurement method to be developed by the contractor (Parsons).

The medical equipment sets were subject to a series of contract modifications and the contract was ultimately definitized on December 26, 2004, at \$70,359,014 for 151 equipment sets, as follows:

- \$18,962,505 for 42 medical equipment sets in Central Iraq (includes a medical training academy)
- \$23,289,823 for 49 medical equipment sets in Northern Iraq
- \$28,106,686 for 60 medical equipment sets in Southern Iraq

For a complete contract history of the medical equipment sets, see Appendix C.

SIGIR Observations. The Special Inspector General for Iraq Reconstruction (SIGIR) has issued two audit reports on concerns with the Parsons contract for the PHCs.

Between September 8, 2005, and March 3, 2006, the government made a series of decisions to issue stop work orders to Parsons that descoped the total number of PHCs to be completed by Parsons from 150 to 20 facilities. The causes and impact are reported in SIGIR's Audit Report, *Management of the Primary Healthcare Centers Construction Projects* (SIGIR-06-011, April 29, 2006). However, the U.S. government did not reduce the number (151) of medical equipment sets to be procured by Parsons to correspond with the descoping actions. As a result Parsons procured 130 more medical equipment sets than required for the remaining 20 PHCs left on the contract; plus one additional medical equipment set for the Medical Training Academy, which was never built, for a total of 131 medical equipment sets requiring storage. Included in the \$70,359,014 definitized costs for the medical equipment was the requirement for Parsons to install and test the equipment, train clinic personnel on the use of the equipment, and provide a 12 month warranty on the installed equipment.

During the initial stages of this audit of the medical equipment sets, SIGIR issued *Interim Audit Report on the Review of the Equipment Purchased for Primary Healthcare Centers Associated with Parsons Global Services, Contract Number W914NS-04-D-0006* (SIGIR-06-016, April 4, 2006), to alert responsible U.S. government agencies of our concerns over certain events that were scheduled to occur before our audit was complete and our final report issued. These concerns included: (1) the lack of written plans for the acceptance, storage, and use of the 131 medical equipment sets to be delivered by Parsons in April 2006 that were in excess to the current PHC needs as a result of descoping the number of PHCs to be constructed from 150 to 20, and the non-construction of the medical training academy (whose construction was not part of the Parsons contract); (2) the need to ensure U.S. government accountability of the equipment upon delivery to the Iraqi Ministry of Health warehouse in Erbil, Iraq by Parsons; and (3) U.S. government's inability to ensure proper protection and accountability of equipment to be stored in an Iraqi warehouse.

We briefed both GRD-PCO and JCC-I/A on March 30, 2006, on our concerns and at that time presented them with a draft of our interim report. On April 4, 2006, (the same day our Interim Report was issued) GRD-PCO advised us that due to "space constraints" at the Erbil warehouse, all of the medical equipment would be delivered to the U.S. government-controlled PWC Logistics warehouse in Abu Ghraib.

Objectives

The main objectives of the audit were to determine whether medical equipment associated with Primary Healthcare Centers (PHCs), Parsons Contract Number W914NS-04-D-0006, was properly accounted for; and to identify the impact of the descoping of the PHCs construction. Specifically this report addresses the following questions:

- Where are the medical equipment sets³ located and which organizations maintain physical control of the assets?
- How and when will the U.S. government transfer the equipment?
- What are the “lessons learned” from the management and execution of the non-construction process and practices related to this contract?

For a discussion of the audit scope and methodology, and a summary of prior coverage, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For the contract history of medical equipment sets, see Appendix C. For a description of the organizations discussed in this report, see Appendix D. For a distribution list for this report, see Appendix E. For a list of the audit team members, see Appendix F.

³ The SIGIR audit announcement memorandum issued on March 2, 2006, included the phrase “medical equipment and supplies” as part of the audit objective. However, when we started the audit we discovered that supplies purchased for the PHCs associated with the Parsons contract were procured under a separate contract that had not been awarded to Parsons. As a result we eliminated supplies from this audit objective and made the decision to look at the supplies procured for the PHCs as part of a separate audit. This separate audit was announced by SIGIR memorandum issued May 9, 2006, “Audit of Consumable Supplies Purchases under Contract Number W27P4B-05-A-5018 for Primary Healthcare Centers,” (Project No. 6018).

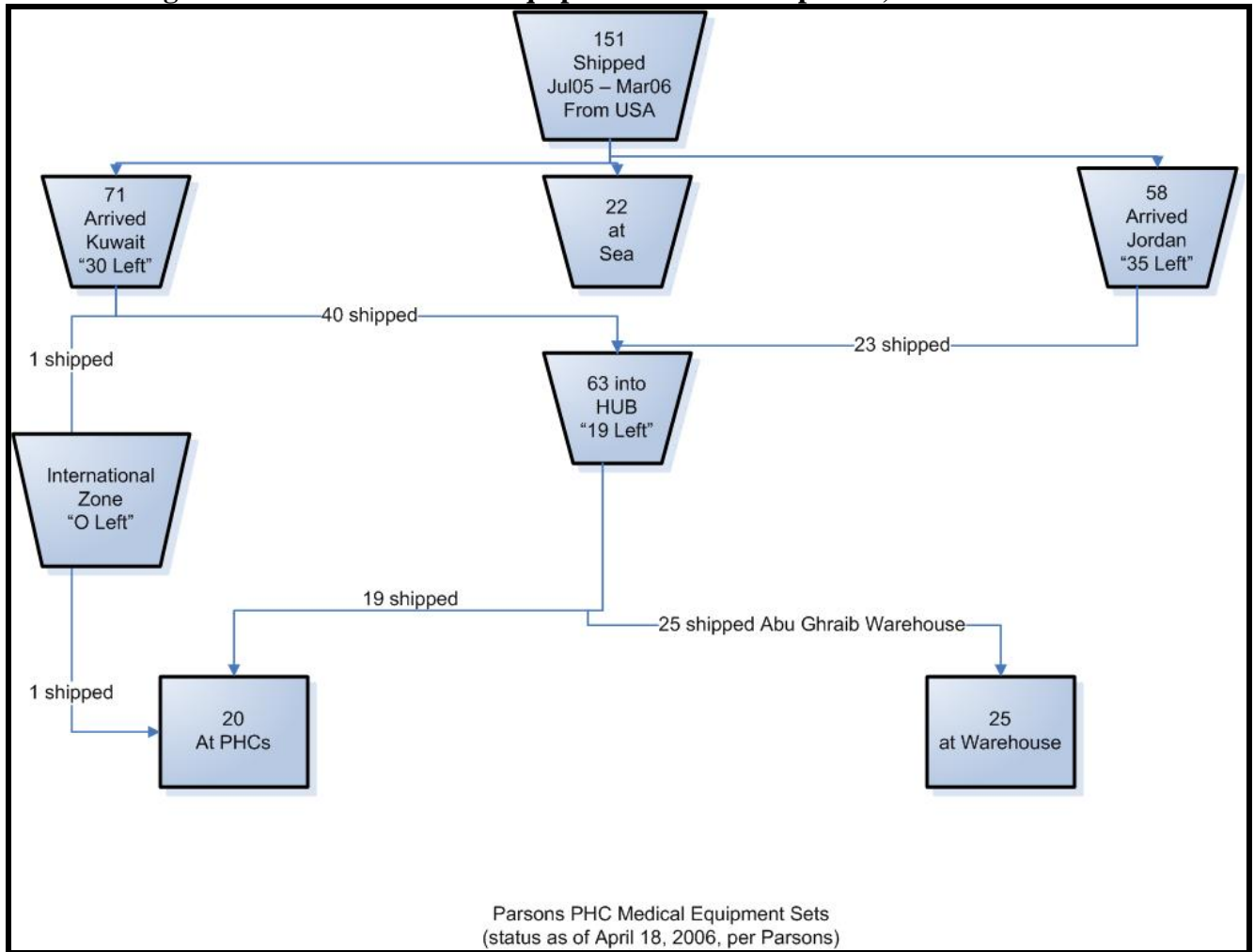
Inventory of Medical Equipment Sets

As of May 10, 2006, the date we conducted the inventory at the PWC Logistics warehouse located in Abu Ghraib, Iraq, 151 medical equipment sets were procured by Parsons. Twenty sets were physically located at the sites of the 20 Public Healthcare Centers (PHCs) that were fully or partially constructed by Parsons. Of the remaining 131, 71 full or partial sets had been delivered to the warehouse, leaving 60 distinct sets to be delivered by Parsons.

Parsons Procurement and Shipment of Medical Equipment

Medical equipment items were purchased by a Parsons sub-contractor (Odell International LLC) and shipped to Miami, Florida, for consolidation. Once the medical equipment was received in Miami, another Parsons sub-contractor (Symphony Medical) assembled the medical equipment “sets” into a defined number of shipping crates, and shipped these crates by sea from Miami, Florida to either Kuwait or Aquba, Jordan. The equipment sets were initially stored in bonded customs warehouses in Kuwait and Jordan before being transported by truck to the Parsons temporary storage Hub located near the Baghdad International Airport (BIAP) in Iraq. From the Parsons BIAP Hub, the medical equipment sets were then shipped to one of the 20 PHCs under the Parsons contract (at the time of shipment) or to the PWC Logistics warehouse in Abu Ghraib. Figure 1 reflects the status of Parsons’ shipments (per information provided from Parsons) as of April 18, 2006.

Figure 1. Status of Medical Equipment Sets as of April 18, 2006



Source: SIGIR depiction based on Parsons shipment information. The International Zone is located in Baghdad, Iraq.

The schedule of projected future shipment dates provided to us by Parsons on April 18, 2006, indicated that deliveries of all 131 remaining medical equipment sets to the Abu Ghraib warehouse would be completed by May 9, 2006. However, the equipment shipments were not accomplished as timely as projected by Parsons. As of May 10, 2006, the day after all of the equipment sets were expected to be delivered to the warehouse per Parsons delivery schedule, a total of only 71 full or partial medical equipment sets had been received by the warehouse. A partial set occurs when the total number of crates that comprise a medical equipment “set” is not received at the warehouse. As of June 11, 2006, the PWC Logistics automated warehouse system showed that the total of full or partial medical equipment sets received by the warehouse increased to 115 medical equipment sets. This audit report, however, discusses the number and condition of the 71 medical equipment sets in the warehouse as of May 10, 2006, the date we conducted our physical inventory of the equipment sets in the warehouse.

Medical Equipment Sets Issued to PHCs

As of May 10, 2006, 20 of the 151 medical equipment sets procured by Parsons have been delivered to and are physically located at the sites of 20 PHCs that were fully or partially constructed by Parsons. Six of these PHCs, along with their associated medical equipment sets, were formally transferred to the Iraqi government on March 15, 2006. The remaining 14 PHCs are still in the construction process or undergoing final inspection prior to being formally transferred to the Iraqi government. One of the 14 PHCs was partially destroyed, along with associated medical equipment, from an explosion at the site caused by insurgents. We were advised by IRMO that this PHC will be rebuilt.

Physical Control and Condition of the Medical Equipment Sets

Physical control over the total 151 medical equipment sets was divided among the Iraqi government, the U.S. government, and Parsons. The U.S. government had not implemented proper accountability procedures for the receipt, acceptance or storage of these medical equipment sets upon arrival at the warehouse. Neither Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) nor Gulf Region Division-Project and Contracting Office (GRD-PCO) took appropriate actions to ensure that the medical equipment sets, upon delivery to the PWC Logistics warehouse, were properly inventoried, inspected, receipted, and accounted for by the Defense Contract Management Agency's (DCMA) Quality Assurance Representative (QAR) assigned to the warehouse, or by any authorized U.S. government representative.

Physical Control

The Iraqi government has physical control of six medical equipment sets that were installed in six PHCs which were formally transferred by the U.S. government to the Iraqi government on March 15, 2006.

The U.S. government currently has physical control of 14 medical equipment sets that are physically located at the sites of PHCs being completed under the Parsons contract. This includes physical control of what remains from the one equipment set located at the PHC site that was partially destroyed by insurgents. These 14 medical equipment sets were not required to be accounted for separately on U.S. government property books, but are included as part of the overall PHC construction site project.

The U.S. government will have physical control of all the remaining 131 medical equipment sets as each is delivered to the U.S. government-controlled PWC Logistics warehouse in Abu Ghraib, Iraq. As of June 11, 2006, the U.S. government had physical control of 115 full or partial medical equipment sets delivered by Parsons to the warehouse. Parsons and/or a Parsons Sub-contractor have physical control of the remaining 16 sets of medical equipment until delivery to the warehouse.

Lack of Inventory Procedures

While the U.S. government has physical control of the medical equipment sets delivered to the PWC Logistics warehouse, neither the JCC-I/A nor the GRD-PCO took appropriate actions to ensure that the equipment delivered to the warehouse by Parsons was properly inspected, receipted for or accepted by the U.S. government. As of May 10, 2006, the U.S. government has not officially accepted or properly accounted for any of the medical equipment items included in the 71 sets of medical equipment that were delivered to the warehouse. As a result, the U.S. government does not know:

- what actual items of medical equipment have been delivered to the warehouse by Parsons
- what equipment that should have been delivered (per shipping documents included with the Parsons delivery) may be missing
- what condition the medical equipment items were in upon delivery to the warehouse

Not knowing exactly what equipment items were received and the condition of the medical equipment at the time it was received by the PWC Logistics warehouse will make any objective determination of who has responsibility for missing or damaged equipment (Parsons or the U.S. government) difficult, if not impossible.

Medical Equipment Not Properly Inspected and Accepted Upon Delivery at Warehouse. To date, no U.S. government representatives have performed the receipt and acceptance function that should have been conducted when the Parsons medical equipment sets arrived at the PWC Logistics warehouse. This occurred, in part, because both, the GRD-PCO officer in charge of the Parsons medical equipment sets remaining on the Parsons contract and the current JCC-I/A contracting officer for the overall Parsons contract, mistakenly believed that DCMA had been delegated responsibility for receipt and acceptance of the Parsons medical equipment deliveries to the PWC Logistics warehouse. However, DCMA was never delegated this receipt and acceptance function in the Parsons contract.

Prior to our visit to the PWC Logistics warehouse, we discussed with the GRD-PCO Equipment Lead for Non-Construction (the officer in charge of the 131 remaining medical equipment sets) how the medical equipment going into the warehouse would be accounted for by the U.S. government. This individual advised us that since the PWC Logistics warehouse was U.S. government contractor-operated, the medical equipment delivered to the warehouse would be inspected and accepted by DCMA representatives assigned to the warehouse just like any other equipment going into the warehouse. He advised us that DCMA would sign the DD Form 250 (Material Inspection and Receiving Report), accepting the equipment. This form would then be used to record the equipment on the government property book.

During our onsite review at the PWC Logistics warehouse we found that contrary to what we had been told by GRD-PCO, DCMA did not have the responsibility to inventory and receipt for Parsons PHC medical equipment sets. The DCMA Quality Assurance Representatives (QARs) assigned to the warehouse informed us that they normally had the authority/responsibility to inventory, inspect, and accept (sign the DD Form 250), on behalf of the U.S. government, all contractor-delivered equipment to the warehouse. The DCMA QARs advised us that this function is delegated to DCMA in the individual contracts that direct contractor shipments to the warehouse. DCMA QARs at the warehouse provided us an example of such a delegation in which the INSPECTION AND ACCEPTANCE clause of the contract contained the statement, “*Inspection and acceptance by DCMA QAR at ABU Ghayib (sic), Baghdad, Iraq.*” However, no such statement referring to DCMA was included in the Parsons contract. As such, DCMA advised us that they were not delegated any responsibility/authority to accept or inspect Parsons medical equipment deliveries. DCMA told us that it was unusual for them not to be delegated responsibility/authority to accept warehouse deliveries, as they were responsible for the receipt and acceptance of almost all other contractor deliveries to the PWC Logistics warehouse⁴.

The requirement to include specific language in contracts administered by DCMA is included in JCC-I/A Letter of Instruction No. 06-08, “Contract Award Instructions to the Supplier”, dated March 6, 2006. This Letter of Instruction was issued to clarify the duties and responsibilities for Contracting Officers and DCMA Administrative Contracting

⁴ In subsequent discussion with the Commander, DCMA Central Iraq, we were advised that since the Parsons contract is a construction contract, DCMA can not be delegated the receipt/acceptance function for this contract. JCC-I/A in their response to the draft audit report also indicated that they can not delegate the receipt/acceptance function to DCMA per their Memorandum of Agreement with DCMA.

Officers. This Letter of Instruction states that when a DCMA QAR is not present to act as receiver/acceptor of goods or services, the U.S. government receiver/acceptor must be notified of his duties and responsibilities for reviewing, signing and submitting the DD250. The Letter of Instruction states that providing written instructions detailing the U.S. government representative's responsibilities is the contracting officer's responsibility. In the deliveries of Parsons medical equipment to the warehouse, however, neither DCMA nor any other U.S. government representative was delegated receiver/acceptor duties or provided any instructions regarding responsibilities for Parsons medical equipment deliveries by the contracting officer.

When we brought the fact that DCMA was not performing U.S. government receiver/acceptor duties at the warehouse for the medical equipment, to the attention of the current JCC-I/A Contracting Officer for the Parsons contract, the Contracting Officer told us he was not aware of this condition. He believed DCMA had been delegated responsibility for receipt and acceptance of the Parsons medical equipment deliveries to the PWC Logistics warehouse and was performing this duty. When we later followed up with the Contracting Officer to determine if he had taken any action to appoint DCMA as the administrative contracting officer for receipt/acceptance of Parsons medical equipment sets still to be delivered to the warehouse, he advised us that he had not. The Contracting Officer told us that after reviewing the Parsons contract files; it appeared that GRD-PCO was assigned administrative contracting officer duties for acceptance of goods related to the construction projects under the Parsons contract. However, since the contract terms had changed upon descoping of the contract from installing and testing the equipment at the PHC sites to delivering the equipment to a warehouse, the Contracting Officer stated the issue of who was delegated responsibility for receipt/acceptance of the medical equipment delivered to the warehouse was "murky."

It appears that when the contract terms regarding equipment changed from an "install at site" requirement, to a "delivery to government warehouse" requirement, no one involved with the contract at either JCC-I/A or GRD-PCO acted on the ramifications involved. Because the contract did not initially require delivery of equipment to the warehouse at Abu Ghraib, DCMA was not assigned (delegated) any receipt/acceptance function for the contract. When the contract changed to require delivery to the warehouse, JCC-I/A did not modify the contract to delegate the receipt/acceptance function to DCMA. The GRD-PCO equipment lead for Parsons believed, however, that DCMA had the normal responsibility to receipt/accept for contractor equipment deliveries to the warehouse and assumed the Parsons medical equipment delivery to the warehouse would be handled and accounted for by DCMA.

As a result of these misunderstandings, no U.S. government representative performed the receipt/acceptance function when Parsons medical equipment sets arrived at the PWC Logistics warehouse.

Arrival of Parsons Medical Equipment at the Warehouse. Parsons medical equipment arrived at the PWC Logistics warehouse packed in wooden crates of various sizes, transported on open flat-bed (semi-trailer) trucks as shown in Photo 1.

Photo 1. Parsons Medical Equipment Delivery Entering Warehouse



Source: Photographed by SIGIR on May 10, 2006

The medical equipment was required to be shipped in sets, with each equipment set clearly marked and identified as being for a single designated PHC or for the Teaching Academy. However, warehouse records indicate, and our observations confirmed, that many equipment crates arrived at the warehouse without proper markings or identifications on the outside of the crates to designate which PHC the medical equipment set in the crate belonged to. As of May 10, 2006, PWC Logistics had set aside, in a separate area of the warehouse, 16 crates of medical equipment which had no outside markings on the crates to indicate which PHC the crates were designated for.

In addition to unmarked crates, the warehouse frequently received equipment crates in which the crate identification number painted on the crate conflicted with the crate number shown on shipping documents attached to the outside of the same crate, as shown in Photos 2 and 3.

Photo 2. Number Painted on Crate



Source: Photographed by SIGIR on May 10, 2006

Photo 3. Label Attached to Same Crate



Source: Photographed by SIGIR on May 10, 2006

The warehouse attempted to store sets of medical equipment for the individual PHCs together and used yellow tape to identify separate PHC medical equipment sets as shown in Photo 4. However, the different and often conflicting markings on the crates made it difficult, if not impossible, for the warehouse personnel to always properly identify and store medical equipment crates with the properly designated PHC.

Photo 4. Medical Equipment Sets Bundled by PHC with Tape



Source: Photographed by SIGIR on May 9, 2006

Warehouse Accepted and Signed for Crates Only – No Content Inspection. When the medical equipment crates arrived at the warehouse, PWC Logistics warehouse personnel unloaded the crates from the delivery trucks; counted the number of crates received; conducted a visual inspection of the crates; and noted any visual damage to the outside of the crates. We observed delivery and unloading of Parsons medical equipment crates at the warehouse on two separate dates and on both dates we found that PWC Logistics personnel carefully and professionally unloaded the crates. An example of the unloading process is shown in Photo 5.

Photo 5. Unloading Parsons Medical Equipment




Source: Photographed by SIGIR on May 9, 2006

GRD-PCO issued instructions to PWC Logistics not to open any of the crates upon delivery because of concerns that opening the crates may void the medical equipment warranty (this issue is discussed later in this report). As a result, PWC Logistics was precluded from conducting an inventory of the contents of the crates. This in turn prevented PWC Logistics from inspecting the actual medical equipment inside the crates for any visual damage to the equipment itself that might have occurred during shipping.

In verifying delivery of the medical equipment received, PWC Logistics only counted and receipted for the number of crates received. PWC Logistics did this by signing the receipt document from Eagle Global Services (a Parsons sub-contractor) that accompanied the equipment deliveries. On the receipt document, PWC Logistics annotated the date of the delivery, the actual number of crates received, and the number of crates received with visual damage. An example is shown in Exhibit 1.

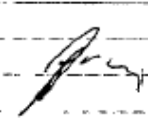
Exhibit 1. Example of Receipt Document Signed by PWC Logistics

 <p>Eagle Global Logistics</p> <p>Eagle Global Logistics LLC Iraq Baghdad Al Mansour. Tel : 00964 7901 386 961 : 00964 7901 386 960</p>		<p><u>DELIVERY NOTE / POD.</u></p>	
<p>DATE: April-27-2006</p>		<p>DELIVER TO:</p>	
<p>JOB NO: LNSYM-04-06-052</p>		<p>BIAP North Warehouse</p>	
<p>DELVD BY:</p>		<p>Abu Ghraib</p>	
		<p>Baghdad north W.H distribution center</p>	
		<p>2C</p>	

Dear Sirs,

Please acknowledge Receipt of the Following Consignment:

<u>YOUR REF</u>		
<u>CONTRACT NO:</u>		
<u>FLIGHT NO:</u>		
<u>AWB/HAWB/MBL:</u>		DK#02
<u>INV / PKG LIST # :</u>		
<u>PO # :</u>		
<u>NO OF PACKAGES / GWT:</u>		14 Crates 13 Crates
<u>DESCRIPTION OF CARGO:</u>		12 Crates (serviceable) 15 Crates 1 DMG
<u>IDENTIFYING NUMBERS:</u>		

<u>DATE & TIME:</u>	27 APR 06
<u>NAME & SIGNATURE:</u>	Sim Ruz 
<u>DOD BADGE NO:</u>	
<u>COMPANY:</u>	
<u>CONTACT TEL NO:</u>	
<u>E-MAIL ADDRESS:</u>	

Please note that signature of the POD is confirmation that the Quantity received is the same as the Quantity Stated on Paperwork attached. The signature also confirms that the Cargo has been received in Good condition and no damages are visible or noted at this time.

Source: PWC Logistics warehouse personnel

The document (Exhibit 1) shows that for PHC DK#02 a total of 14 crates were to have been included in the medical equipment set delivery. The warehouse actually received 13 crates, of which 12 crates were received in serviceable condition and one of the crates

showed visual damage (1 DMG). The document is signed and dated by the assistant receiving manager for PWC Logistics, and is stamped by PWC Logistics. PWC Logistics, when completing the Eagle Global Logistics delivery form, only showed the number of crates damaged and missing, not the specific identification number of the crates that were damaged or missing.

Actual Quantity and Condition of Medical Equipment Received Unknown. Because an inventory of the medical equipment content inside the crates has not been conducted, the U.S. government has no way of knowing exactly what type and quantity of medical equipment has actually been received into the warehouse. In addition, because no inspection of the equipment was done, the U.S. government does not know the actual condition of the equipment inside the crates.

Medical Equipment Sets Received at Warehouse Contained Discrepancies

What the U.S. government does know is that as of May 10, 2006, when we conducted our inventory at the warehouse, some 71 identified distinct sets of medical equipment crates designated for 71 PHCs had been received by the warehouse. In total, at the time of our inventory, 33 of the 71 equipment sets (46%) had one or more types of discrepancies noted by PWC Logistics upon arrival as noted below:

- 27 of 71 equipment sets (38%) had from 1 to 6 crates damaged
- 8 of the 71 equipment sets (11%) had from 1 to 4 crates missing
- 4 of the 71 equipment sets (6%) had from 1 to 6 crates more than shown on the delivery documents
- 1 of the 71 equipment sets (which included only one crate) was received with no delivery document
- 16 crates were received with no identifiable markings on the crates to indicate which PHC they belonged

Condition of Damaged Crates Indicates Likelihood of Missing Equipment

In addition to indications of damaged equipment inside the crates, many of the damaged crates SIGIR examined showed unmistakable signs that equipment was missing from the crates as shown in Photos 6 and 7. Photo 6 shows 2 crates in which parts of side panels are missing or broken. The inside of the crates contain empty spaces in which equipment was most likely packed, but presumed to be missing. The shrink-wrap shown in both pictures was applied after the equipment arrived at the warehouse by PWC Logistics to prevent additional damage and preclude opportunity for any pilfering at the warehouse. Photo 7 shows another example of a crate with part of the side panel missing, some boxes of equipment inside the crate, but lots of empty spaces, suggesting that other items of equipment that were included when the crate was packed are now missing. Other crates received at the warehouse, while showing no visually obvious signs of missing equipment, bore signs of potential tampering, as shown in Photo 8. In this example, the top of the crate appears to have been pried open and then improperly reattached, which could indicate items were removed from the crate. The U.S. government however, cannot know what, if any equipment is actually missing until a complete inventory is conducted of the contents of the crates.

Photo 6.
Two crates with Side Panels Missing/Busted



Source: Photographed by SIGIR on May 9, 2006

Photo 7.
Another Crate with Missing Panel



Source: Photographed by SIGIR on May 9, 2006

Photo 8. Top of Crate Pried Open



Source: Photographed by SIGIR on May 10, 2006

Crates with No Visual Damage Noted on Receipt Documentation May Also Contain Damaged Equipment Other crates, besides those for which PWC Logistics noted visual damage during the receipt process, may also contain damaged equipment caused by tilting or rough handling during the delivery process. Because of the sensitivity of some of the medical equipment, several of the crates in each medical equipment set contained *Tiltwatch* and/or *Shockwatch* meters attached to the outside of the crates. The description of these types of meters, which were affixed to the medical equipment set crates we observed, are described on the manufacturer's websites and appropriate brochures as follows:

- “Tiltwatch is a state-of-the-art monitor that will indicate red if your container has been tilted on its side or completely upended. Tiltwatch is "carrier friendly" and guarantees 100% accuracy. Tiltwatch activation angle is 80 degrees plus or minus 5% from vertical”.
- “Shockwatch is a precision impact detection device that senses and indicates a magnitude of shock. If a carton bearing a Shockwatch Label is dropped or roughly handled, Shockwatch reacts instantly. The liquid in the tube changes from clear to bright red, providing indisputable evidence that excessive impact has occurred. Normal movement or road shock won't activate Shockwatch - only the specific impact for which it was designed. Yellow Shockwatch labels are designed to activate when a crate weighing 100 pounds or more is dropped vertically from a distance of 6 to 12 inches”.

Several of the medical equipment crates in the warehouse that were outfitted with *Tiltwatch* or *Shockwatch* meters (or both) were showing RED, indicating that the meters had been activated (tilting occurred over an 80 degree angle and/or crate was dropped vertically at least 6 to 12 inches), as illustrated in Photos 9 through 11.

Photo 9.
***Tiltwatch* Meter Showing “Red”**



Photo 10.
***Shockwatch* Meter Showing “Red”**



Photo 11. Both Meters Showing “Red”



Source: All photographed by SIGIR on May 10, 2006.

The labels associated with the *Tiltwatch* and *Shockwatch* meters on the crates instruct that if RED is shown, the shipment should be accepted, a note should be made on the Bill of Lading (receipt document), and the items should be inspected for damage immediately. PWC Logistics warehouse personnel, however, following their instructions from GRD-PCO not to open the crates, did not inspect equipment in crates showing RED on the meter. In addition, no indication was made on the signed receipt documentation (see Exhibit 1) indicating that crates were delivered to the warehouse with *Tiltwatch* and/or *Shockwatch* meters showing RED. As a result, there is no written documentation that indicates whether and which crates had meters showing RED upon delivery to the warehouse. Thus, if equipment is found to be damaged inside of the crates with RED meter indicators, the government may have a difficult time proving whether the damage occurred during shipping, which in turn may render any successful claim against Parsons for the damage doubtful.

Medical Equipment Delivered to Warehouse Not Properly Accounted For. As stated earlier in this report, upon arrival at the PWC Logistics warehouse, the medical equipment was not inventoried, inspected, or accepted/receipted for by any U.S. government representative. Parsons representatives told us that upon delivery of the equipment to the warehouse they have complied with their contractual obligation to deliver the equipment to the government. Federal Acquisition Regulation clause 52.245-5(c)(2) GOVERNMENT PROPERTY (COST-REIMBURSEMENT ...) which is included in the Parsons Contract W914NS-04-D-0006, states:

Title to all property purchased by the Contractor for which the Contractor is entitled to be reimbursed as a direct item of cost under this contract shall pass to and vest in the Government upon the vendor's delivery of such property.

GRD-PCO told us that they have not officially accepted and receipted for the medical equipment delivered by Parsons to the warehouse. While it is true that the U.S. government has not officially accepted and receipted for the equipment on the approved DD Form 250 (Material Inspection and Receiving Report), the fact remains that the U.S. government directed Parsons to ship the medical equipment to the PWC Logistics warehouse and authorized PWC Logistics, who operated the warehouse on behalf of the U.S. government, to accept delivery of the equipment. The U.S. government thus has both “title to” and “physical possession of” the medical equipment delivered to the warehouse through this agency relationship with PWC Logistics. What the U.S. government does not have, however, is proper accountability for the medical equipment. To date, the equipment has never been inventoried and added to any U.S. government property book.

Warranty of Equipment Delivered to Warehouse May Be in Doubt. The Parsons contract required that the medical equipment purchased for the PHCs include a 12-month warranty. We were told by GRD-PCO that this warranty takes effect upon the installation of the equipment in the PHCs. In fact, the reasons given by GRD-PCO for not opening the equipment crates upon receipt at the PWC Logistics warehouse was that opening the crates may void the warranty. We requested documentation to support this requirement in the warranty from both GRD-PCO and JCC-I/A, but neither office could provide us with any written documentation on this matter.

We did note during our observations of equipment stored in the warehouse that a few crates were marked with a red tag, as shown in Photo 12, which warned against opening the crates, stating: Do Not Open; that the RFID (Radio Frequency Identification) Tag Inside was for Installer Only.

Photo 12. “Do Not Open” Tag on Crate



Photographed by SIGIR on May 10, 2006

At the time the equipment purchase was negotiated and awarded to Parsons, the 12-month equipment warranty clause (which we believe is based on the manufacturer's warranty) that was included with the equipment procurement was based on the contract requirement applicable at the time. Accordingly, the equipment was to have been delivered directly to and installed in the applicable PHC for which the equipment was procured. However, with the exception of the equipment for the 20 PHC s that remained to be completed under the Parsons contract, all of the remaining 131 medical equipment sets are now being delivered to the warehouse, not directly to a PHC. Most of the equipment will likely be stored in the non-climate controlled PWC Logistics warehouse for an extended period of time (at least 6 months or longer).

Because we were not able to obtain specific warranty documentation, we were not certain of the impact this extended storage will have on the 12-month warranty, but we suspect that the delayed delivery to and installation at PHCs may modify and perhaps even nullify the 12-month equipment warranty provided for under the contract. A second implied assumption under the warranty is that the equipment is to be delivered and installed in new and undamaged condition. This requirement may not be met for many of the medical equipment items. Damage to many items has probably occurred based upon the visual damage noted for some shipment crates, as well as the RED *Tiltwatch* and/or *Shockwatch* meters alerts indicating that tipping and/or rough handling of the crates had occurred.

The JCC-I/A Contracting Officer for the Parsons contract told us he is looking into the warranty issue, but to date does not have an answer. He advised us that he was told that a second warranty for the equipment has been purchased that may either extend the equipment warranty for another 12 months or replace the original 12-month warranty. The Contracting Officer, however, was unable to provide us with any documentation on this second warranty and indicated he was still looking into how this second medical equipment warranty was procured.

Plan for Transfer of Medical Equipment Sets

No formal written plan currently exists, as a result of the descoping of the PHC construction contract, which lays out the specific use for and dates of transfer for the 131 equipment sets to be delivered to the PWC Logistics warehouse in Abu Ghraib, Iraq. The Iraq Reconstruction Management Office (IRMO), however, is attempting to obtain funding to continue construction on the PHCs descoped from the Parsons contract. The Commanding General, Multi-National Corps-Iraq, initially committed funds from the Commander's Emergency Response Program (CERP) to complete construction on partially constructed PHCs that were descoped from the Parsons contract. However, on June 20, 2006, the Department of State issued a Congressional Notification advising Congress of the intent to obligate \$62,300,000 of Iraq Relief and Reconstruction Fund resources from the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (P.L. 108-106). The funds will be used to support the completion of 121 Primary Healthcare Centers across Iraq. We previously reported that about \$36 million would be needed to complete the 121 PHCs⁵.

IRMO expects that the medical equipment sets stored in the warehouse will first be allocated to the PHCs to be completed, and that any remaining equipment sets will be distributed to current Iraqi health clinics or hospitals as needed. To date, however, IRMO has not developed a written plan identifying which current Iraqi health clinics or hospitals have need for the specific medical equipment that may become available.

Management Actions. Management has taken steps to address some of the issues that we have identified during this audit. Specifically:

- On April 4, 2006, GRD-PCO in coordination with JCC-I/A made a decision not to have Parsons deliver any medical equipment sets to the Ministry of Health warehouse in Erbil, Iraq.
- IRMO continues to coordinate with JCC-I/A and GRD-PCO to obtain funding for continued construction of the remaining PHCs and to develop a plan for the distribution of the 131 medical equipment sets to be stored in the PWC Logistics warehouse.

⁵ SIGIR-06-011.

Conclusion and Recommendations

Conclusion

Physical control over the medical equipment sets was divided among the Iraqi government, the U.S. government, and Parsons. As of May 10, 2006, the date we conducted the inventory at the U.S. government-controlled PWC Logistics warehouse located in Abu Ghraib, Iraq, 151 medical equipment sets were procured by Parsons. Twenty sets were physically located at the sites of the 20 Public Healthcare Centers (PHCs) that were fully or partially constructed by Parsons; including 6 PHCs transferred to the Iraqi government. Of the remaining 131, 71 full or partial sets had been delivered to the warehouse, leaving 60 distinct sets to be delivered by Parsons. As of June 11, 2006, the PWC Logistics automated warehouse system indicated that Parsons had delivered a total of 115 full or partial medical equipment sets to the warehouse.

The U.S. government did not ensure proper accountability for medical equipment sets delivered to the PWC Logistics warehouse. Neither the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) nor the Gulf Region Division-Project and Contracting Office (GRD-PCO) took appropriate actions to ensure that the equipment delivered to the warehouse by Parsons was properly inventoried, inspected, receipted for or accepted by any authorized representative of the U.S. government. As a result, the U.S. government does not know:

- what actual items of medical equipment have been delivered to the warehouse by Parsons
- what equipment that should have been delivered (per shipping documents included with the Parsons delivery) may be missing
- what condition the medical equipment items were in upon delivery to the warehouse

Not knowing exactly what equipment items were received and the condition of the medical equipment at the time it was received by the PWC Logistics warehouse will make any objective determination of who has responsibility for missing or damaged equipment (Parsons or the U.S. government) difficult, if not impossible.

The failure of the U.S. government to properly perform the receipt and acceptance function upon the arrival of Parsons medical equipment at the warehouse occurred in part because neither the DCMA nor any other U.S. government representative at the warehouse was delegated responsibility for the receipt and acceptance of the Parsons medical equipment delivered to the warehouse. This condition occurred because neither JCC-I/A nor GRD-PCO anticipated the operational and accountability ramifications for the receipt and acceptance of equipment that occurred when the contract requirements were revised from having Parsons install the procured medical equipment in the PHCs as part of the construction project; to contract terms that required Parsons to deliver the procured medical equipment to a warehouse.

No formal detailed written plan exists that lays out the specific use for all of the 131 equipment sets to be delivered to the PWC Logistics warehouse. The Iraq Reconstruction Management Office (IRMO), however, continues to work to obtain funding so that construction can continue on additional PHCs not completed by Parsons. IRMO expects that the medical equipment sets stored in the warehouse will first be allocated to these remaining PHCs to be completed, with any remaining equipment sets distributed to

current Iraqi health clinics or hospitals as needed. IRMO, however, has not developed a written plan identifying which current Iraqi health clinics or hospitals have need for the specific medical equipment that may become available.

Recommendations

1. We recommend that the Director, Iraq Reconstruction and Management Office (IRMO) continue to work with GRD-PCO to develop a comprehensive written utilization and transfer plan for all of the 131 medical equipment sets stored in the warehouse.
2. We recommend that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers:
 - a. In coordination with JCC-I/A, arrange for a complete inventory and inspection of all of the medical equipment currently stored in the PWC Logistics warehouse as soon as possible. A listing of missing and damaged items should be prepared when completed.
 - b. In coordination with JCC-I/A, arrange for a knowledgeable Parsons or equipment manufacture representative to be present during the inspection of the condition of the equipment because of the sensitive and specialized nature of medical equipment.
 - c. Arrange for the proper recording of inventoried medical equipment into the appropriate government property management system.
3. We also recommend that the Commanding General, Joint Contracting Command-Iraq/Afghanistan (JCC-I/A):
 - a. In coordination with GRD-PCO, arrange for the official inspection, inventory and receipt of Parsons medical equipment still being delivered to the PWC Logistics warehouse.
 - b. In coordination with GRD-PCO, obtain the completed inventory listing of all medical equipment items currently stored in the PWC Logistics warehouse and take appropriate actions to recoup from Parsons the cost of all items found to be missing or damaged.
 - c. In coordination with GRD-PCO, work with appropriate equipment manufactures and/or secondary warranty grantors to clarify the status of the equipment warranties.

Management Comments and Audit Response

We received written comments on this report from IRMO, JCC-I/A, and GRD. IRMO and GRD generally concurred with the report conclusions and recommendations. JCC-I/A did not concur with our recommendation involving delegation of responsibility to DCMA for receipt/acceptance of Parsons medical equipment delivered to the PWC Logistics warehouse. JCC-I/A noted that Memorandum of Agreement between DCMA and JCC-I/A does not include construction contracts, thus DCMA can not be delegated the receipt/acceptance function for the Parsons Contract (a construction contract). JCC-

I/A did, however, indicate that an alternative is being considered that will include the PWC Logistic contractor and PCO. We consider JCC-I/A's alternative to be responsive in meeting the intent of the recommendation and have modified our final report recommendations to reflect JCC-I/A's comments regarding the Memorandum of Agreement with DCMA. Management comments and responses to the draft report are included in the Management Comments and Audit Response section of this report.

Lessons Learned and Additional Observations

During the course of our review of the management of this contract and the associated property accountability issues, we noted areas where “lessons learned” may be applied to generally improve contract oversight. Additionally, we identified other concerns for management to consider.

Lessons Learned

This report discusses a significant lesson learned for future contract actions regarding the need to fully examine the impact that changes to contract terms may have on operational and accountability requirements.

In this particular instance, a contract was initially written as a construction contract with the requirement that equipment related to the operation of the construction project (a Primary Healthcare Center) be procured and installed as part of the construction project. JCC-I/A, operating under their normal contracting officer procedures for construction contracts, assigned/delegated to GRD-PCO the normal contract administration duties relating to the monitoring of the construction project. However, when the construction portion of the contract was descoped, the contract terms relating to the installation of the equipment as part of the construction project were changed. Under the revised contract terms, the Contractor was no longer required to install the procured equipment as part of the construction project, but was instead required to deliver the equipment to a warehouse. At this point the normal delegated contract administration functions performed by GRD-PCO at the construction site no longer applied. However, neither the Contracting Officer assigned to JCC-I/A nor the non-construction equipment lead officer-in-charge assigned to GRD-PCO appeared to be cognizant of the implications this change would have on the receipt/acceptance function for the equipment delivered to the warehouse.

DCMA had Quality Assurance Representatives (QARs) assigned to the warehouse to which the Contractor was now required to deliver the equipment. The DCMA QARs at the warehouse told us that they had the function to receipt/accept for almost all contractor-delivered equipment to the warehouse, but that this function had to be specifically noted in the contracts. Contracts that required contractors to deliver equipment to the warehouse almost always included an Inspection and Acceptance Clause in the contract that delegated to DCMA the receipt/acceptance function. The responsibility to include such a clause in contracts is stated in JCC-I/A Letter of Instruction No. 06-08, Subject: “Contract Award Instructions to the Supplier,” dated March 6, 2006. This Letter of Instruction, issued to clarify the duties and responsibilities of Contracting Officers and DCMA Administrative Contracting Officers, states that:

- when a DCMA QAR is not present to act as receiver/acceptor of goods or services, the U.S. government receiver/acceptor must be notified of his duties and responsibilities for reviewing, signing and submitting the DD250
- providing written instructions detailing the U.S. government representative’s responsibilities is the contracting officer’s responsibility

In this instance, however, when the contract terms changed to require delivery of equipment to the warehouse, the Contracting Officer did not also include a clause in the revised contract giving DCMA delegated authority to perform the receipt/acceptance function at the warehouse for the delivery of equipment under this contract. In addition, no other U.S. government office, such as GRD-PCO, was specifically assigned the receipt/acceptance function for this contract when the contract terms were changed.

The result, as noted in this report, was that no U.S. government receipt/acceptance was performed when equipment was delivered to the warehouse by the contractor in accordance with the revised contract requirements. Similarly, there were no inspections of the delivered goods to isolate whether items were missing or damaged during the shipment process, or after delivery to the warehouse.

Additional Observations

During the audit we noted two other conditions and concerns relating to medical equipment procured under the Parsons Contract that were outside the scope of our initial audit objectives. These conditions and concerns relate to the training provided by Parsons on the new medical equipment and the expenditure data reflected in the Corps of Engineers Financial Management System (CEFMS) reports for medical equipment purchases.

Training on New Equipment Not Accomplished as Initially Envisioned. As part of the overall medical equipment procurement, the contract required that Parsons train PHC equipment operators on the medical equipment procured. The contract itself does not state any number of days for the new equipment training, but the IRMO Senior Health Advisor to Iraq told us the training on the new equipment was initially envisioned as lasting for 15 days, then was cut-back to 10 days, and finally reduced to just 3 days of training - which was the amount of training conducted for the equipment operators of the 20 PHCs remaining on the Parsons contract. The Senior Health Advisor told us that the cut-back in the number of training days was made without input from IRMO and that Iraqi Ministry of Health officials have remarked that three days of new equipment training was not enough to ensure PHC employees fully understood how to operate the new medical equipment.

Parsons will conduct no new equipment training for the 131 medical sets to be delivered to the Abu Ghraib warehouse. Since this training was included in the overall costs for the procurement of the equipment, we asked the JCC-I/A Contracting Officer about how equipment costs will be adjusted to account for the training not being conducted. The Contracting Officer advised us that even though the equipment costs (which included costs for training) were definitized at a set total amount, the contract remains a cost-plus type contract and Parsons can not bill for any costs not actually incurred.

During our review, we did not see any Parsons invoices in which equipment training costs have been separately identified, so we were unable to confirm whether or not Parsons will separately bill the U.S. government for new equipment training.

Equipment Cost Information from the Corps of Engineers Financial Management System (CEFMS). Reports generated from the U.S. Army Corps of Engineers Financial Management System (CEFMS) show that Parsons was paid award fees on procured equipment, when in fact no such award fees should have been paid. While we did not audit the CEFMS, we did attempt to use information maintained in CEFMS to obtain reports on what billings, obligations and expenditures were made against the Parsons contract relating to the Parsons medical equipment purchases. We discovered that the financial information in CEFMS was incorrect and that, as a result, the CEFMS financial reports could not be relied upon for our purposes. For example, while we know from reviewing the contract, that no equipment award fees relating to the Primary Healthcare Centers (PHC) medical equipment had been authorized for Parsons, CEFMS reports reflected that \$3,229,778.38 had been expended for PHC equipment award fees as of March 12, 2006. To determine if Parsons had billed for and been paid by the U.S. government for unauthorized award fees, we reviewed a limited sample of Parsons invoices and associated DD Forms 250, Material Inspection and Receiving Reports, prepared by GRD-PCO.

We found that Parsons had not billed for award fees. The Parsons invoices that we examined showed that Parsons billed for medical equipment costs in accordance with the requirements specified in the contract. GRD-PCO Health Project personnel, however, in preparing the DD Form 250, improperly made pen and ink changes to the Parsons backup documents included with Parsons invoices. These changes had the effect of redirecting billings from equipment cost CLINs (Contract Line Item Numbers) to equipment award fees CLINs. Two examples of these types of changes are shown in Exhibits 2 and 3.

Exhibit 2. Parsons Invoice Voucher Number 24 with Pen and Ink Changes

PARSONS BHE									
Job Number:		744293							
Delivery Order:		0011							
Contract Number:		W914NS-04-D-0006							
Transmittal of Invoice:		Voucher #24 (05111175) dated 15-Nov-05 for \$1,404,601.84 for period ended 11-Nov-05							
		3AB							
CLIN		0001 Cost for of all PHCs	0002 Cost for Equipment List A	0002AA Base Fee for Equipment List A	0002AB Award Fee for Equipment List A	0003 Cost for Equipment List B	0003AA Base Fee for Equipment List B	0003AB Award Fee for Equipment List B	Total
Odell International	Medical equipment		\$ 1,263,643.84						\$ 1,263,643.84
Odell International	Medical equipment					\$ 140,958.00			\$ 140,958.00
Base fee per definitized, negotiated contract									\$ -
TOTAL THIS INVOICE		\$ -	\$ 1,263,643.84	\$ -	\$ -	\$ 140,958.00	\$ -	\$ -	\$ 1,404,601.84

Source: DD Form 250, Material Inspection and Receiving Report, in PCO files

Exhibit 3. Parsons Invoice Voucher Number 20 with Pen and Ink Changes

PARSONS BHE		744294						
Job Number:		0012						
Delivery Order:		W914NS-04-D-0006						
Contract Number:		Voucher # 20 (05092330) dated 29-Sept-05 for \$343,167.00 for period ended 26-Sept-05						
Transmittal of Invoice:								
		3AB						
CLIN		0001 Cost for Construction of all PHCs GRS Sites	0002 Cost for Equipment List A	0002AC Fixed Fee for Equipment List A	0003 Cost for Equipment List B	0003AA Base Fee for Equipment List B	0003AB Award Fee for Equipment List B	Total
Odell International	Medical equipment		\$ 250,191.87					\$ 250,191.87
Odell International	Medical equipment				\$ 92,975.13			\$ 92,975.13
Base fee per definitized, negotiated contract		\$ -						\$ -
TOTAL THIS INVOICE		\$ -	\$ 250,191.87	\$ -	\$ 92,975.13	\$ -	\$ -	\$ 343,167.00

Source: DD Form 250, Material Inspection and Receiving Report, in PCO files

Exhibits 2 and 3 are part of the backup documentation included by Parsons in their invoices submitted to the U.S. government for payment. In both examples, the Parsons invoices correctly reflected billings as being for the cost of medical equipment procured (CLIN 0003 – Cost for Equipment). During the process of signing the DD Form 250, it appears that GRD-PCO Health Project personnel, who reviewed and signed the DD Form 250 authorizing payment, made a pen and ink alteration which changed the billing CLIN number from 0003 (Cost for Equipment) to 0003AB (Award Fee for Equipment). This had the effect of moving the cost of the amount billed from “equipment cost” to “equipment award fee cost.” The total from these two examples reflect an improper increase in charges of \$233,933.13 to equipment award fees and an improper reduction of \$233,933.13 to actual equipment procurement costs. It appears that the information in these altered backup documents was what was posted to CEFMS, thus causing the incorrect and unreliable information we noted in the CEFMS financial reports.

The specific reasons for the improper changes as well as the overall impact of improper inputs to CEFMS are considered beyond the specific scope of this audit and thus were not pursued at this time by SIGIR.

Appendix A. Scope and Methodology

We initiated this audit (Project No. 6013) in March 2006, to determine whether medical equipment associated with Primary Healthcare Centers (PHCs), Parsons Contract Number W914NS-04-D-0006, were properly accounted for; and to identify the impact of the descope of the PHCs construction, including whether the government representatives are complying with general legislative and regulatory guidance concerning contract administration and property accountability related to the medical equipment purchased under the contract. We also evaluated the effectiveness of the monitoring and controls in place by the Iraq Reconstruction Management Office (IRMO), U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) and the Defense Contract Management Agency (DCMA).

Our audit announcement memorandum issued on March 2, 2006, included the phrase “medical equipment and supplies” as part of the audit objective. However, when we started the audit we discovered that supplies purchased for the PHCs associated with the Parsons contract were procured under a separate contract that had not been awarded to Parsons. As a result we eliminated “supplies” from this audit objective and made the decision to look at the supplies procured for the PHCs as part of a separate audit. This separate audit was announced by SIGIR memorandum issued May 9, 2006, “Audit of Consumable Supplies Purchases under Contract Number W27P4B-05-A-5018 for Primary Healthcare Centers,” (Project No. 6018).

To gain an understanding of each organization’s operations and processes for executing the medical equipment requirements of the contract and equipment accountability requirements, we interviewed contract and property management personnel from IRMO; GRD-PCO; JCC-I/A; DCMA; the contractor, Parsons Global Systems, Inc; and Public Warehousing Company (PWC) Logistics, the U.S. government contractor for the warehouse in Abu Ghraib, Iraq. We also reviewed organization charts and websites to obtain background information and to determine responsibilities.

To determine if the contractor was in compliance with the terms of the contract and task orders relating to the medical equipment, we reviewed the basic contract, modifications, and task orders to determine the contractual requirements. We also interviewed management at Parsons Global Systems, Inc., as well as appropriate personnel at IRMO, GRD-PCO, JCC-I/A, DCMA, and PWC Logistics.

To determine whether government representatives are complying with general legislative and regulatory guidance concerning contract administration and property accountability, we reviewed the relevant sections of the Federal Acquisition Regulation. We reviewed available agency procedures that described the methodology, responsibilities, and documentation standards for contract administration and property accountability. We also interviewed key personnel at IRMO, GRD-PCO, JCC-I/A, and DCMA regarding the procedures.

To evaluate the adequacy of the receipt, storage, and accountability procedures for medical equipment delivered to the PWC Logistics warehouse, we visited the warehouse in Abu Ghraib, Iraq, on May 9 and 10, 2006. While on-site, we observed two deliveries (one each day) of Parsons medical equipment to the warehouse and evaluated the procedures used by the warehouse to inspect, receipt for, unload, and store the crates containing medical equipment. We examined the paperwork used by the PWC Logistics

warehouse personnel to document receipt of equipment and enter receipts into the PWC Logistics automated warehouse system. We observed the condition of the Parsons medical equipment crates stored in the warehouse, conducted an inventory of the equipment sets in the warehouse, and reconciled our inventory results to warehouse records. We observed the physical security procedures in place at the warehouse compound, to include observations of pat-down searches made of all non-U.S. employees exiting the warehouse buildings. We discussed warehouse receipt, issue, storage, documentation, and physical security issues with PWC Logistics representatives, DCMA representatives assigned to the warehouse, and the U.S. military Officer-In-Charge of the warehouse. We obtained access to the PWC Logistics automated warehouse system and conducted several retrievals from the system relating to medical equipment receipts and inventory balances. We documented many of our observations at the warehouse with digital pictures and videos.

To determine the condition of the medical equipment stored in the warehouse we physically observed the equipment stored in the warehouse and noted instances of damaged crates and crates on which tilt or shock meters showed RED.

To determine which entity had physical control over the medical equipment and its location, we determined as of May 10, 2006, what equipment was in the warehouse under U.S. government control, what equipment was at the PHC locations controlled by the Iraq or U.S. governments, and what equipment the contractor was still responsible for delivering to the U.S. government.

To determine whether property transfer plans had been developed we interviewed the Senior Health Advisor, IRMO, as to what plans had been developed and requested copies of any written transfer plans that were developed.

We performed this audit from March 2006, through June 2006, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We reviewed cost-to-complete reports that were compiled in Excel spreadsheets based on data taken from reports run in the U.S. Army Corps of Engineers Financial Management System (CEFMS). While we did not audit CEFMS during this audit⁶, we did conduct a sample review of invoice-related transactions and found the information in CEFMS to be unreliable due to input errors. This is discussed in the Additional Observations section of this report. We also reviewed receipt, shipment, and inventory data available in the PWC Logistics automated warehouse system (called Exceed). We did not audit the PWC Logistics Exceed system and express no opinion on the reliability of the data in the Exceed system.

Prior Coverage.

Special Inspector General for Iraq Reconstruction (SIGIR). Reports issued by the Office of the Special Inspector General for Iraq Reconstruction can be accessed on its website <http://www.sigir.mil>.

SIGIR Interim Audit Report Number SIGIR-06-016, dated April 4, 2006, "Review of the Equipment Purchased for Primary Healthcare Centers Associated with Parsons Global

⁶ For more information on the reliability of data drawn from CEFMS, see GAO report 01-89 "Significant Weaknesses in Corps of Engineers' Computer Controls", October, 2000, and GAO follow-up report 02-589 "Corps of Engineers Making Improvements But Weaknesses Continue", June, 2002.

Services, Contract Number W914NS-04-D-0006” was issued to alert management to our concerns that certain planned events may have on the accountability for and utilization of the medical equipment and to provide management timely information on these potential events and the opportunity to take corrective actions to reduce the risk of accountability shortfalls associated with these events. These concerns included (i) the need to prepare alternative plans for the utilization of 131 medical equipment sets to be delivered by Parsons that were excess to current PHC needs, (ii) the need to ensure U.S. government accountability of the equipment upon delivery to the Iraqi Ministry of Health warehouse in Erbil, Iraq, and (iii) US Government’s inability to ensure proper protection and accountability of equipment to be stored in an Iraqi warehouse.

SIGIR Audit Report Number SIGIR-06-011, dated April 29, 2006, “Audit Report on Management of the Primary Healthcare Centers Construction Projects” concluded overall that management of the primary healthcare centers construction projects could have been better executed between March 25, 2004, and early July 2005. In July 2005, government management recognized the PHC construction program was in trouble and started a series of actions which eventually led to a reduction in the number of centers to be delivered from the 150 to 20. Unfortunately, as a result, we reported that there were 121 centers that remained partially complete. However, there was also a strong commitment among the Iraqi and U.S government managers to complete the 121 partially completed centers. Both governments were developing a plan and attempting to identify the required funds to finalize these centers for the benefit of the Iraqi citizens.

SIGIR Audit Report Number SIGIR-05-027, dated January 27, 2006, “Methodologies for Reporting Cost-to-Complete Estimates”, concluded GRD-PCO, MNSTC-I, and USAID failed to estimate and report reliable and transparent cost-to-complete information for the IRRF projects we reviewed. MNSTC-I did not submit a report for the September 30, 2005, PAR, and GRD-PCO and USAID submitted reports with errors that were significant enough to undermine users’ confidence in the reporting.

SIGIR Audit Report Number SIGIR-05-021, dated October 24, 2005, “Management of Iraq Relief and Reconstruction Fund Programs: Cost-to-Complete Estimate Reporting”, concluded the three organizations responsible for IRRF projects – PCO, USAID, and the MNSTC-I – have been required, since January 2004, to report cost-to-complete information for their IRRF projects in quarterly reports to the Congress. However, these organizations did not begin providing reasonably comprehensive cost-to-complete data to IRMO until the summer of 2005.

Government Accountability Office Report Number GAO-06-428T, dated February 8, 2006, “Rebuilding Iraq: Stabilization, Reconstruction, and Financing Challenges” concluded that the United States faces three key challenges in rebuilding and stabilizing Iraq: the deteriorated security situation, inadequate performance data and measures, and Iraq’s inability to sustain projects.

U.S. Agency for International Development (USAID) Inspector General Audit Report Number E-267-002-P dated February 28, 2005, “Audit of USAID/Iraq’s Health System Strengthening Contract Activities.” The USAID Regional Inspector General in Baghdad, Iraq conducted this audit to determine whether activities under USAID/Iraq’s Health System Strengthening Contract (the contract) had achieved their intended outputs. The audit found that activities under the contract did not achieve their intended outputs. Based on review of documentation on file at the Mission and furnished by the contractor, 60 percent of the activities (28 of 47) did not achieve their intended outputs. This occurred, in part, because the contractor did not effectively manage its program to ensure that activities were completed as scheduled and produced deliverables which strengthened the

Iraqi Ministry of Health. In addition, a reduction in the contract's cost ceiling in January 2004 prompted the contractor to cancel or curtail a number of its activities, including some that were scheduled to be carried out prior to the reduction, which the Mission expected to be completed.

Appendix B. Acronyms

CEFMS	U.S. Army Corps of Engineers Financial Management System
CERP	Commander's Emergency Response Program
DCMA	Defense Contract Management Agency
GRD-PCO	Gulf Region Division - Project and Contracting Office
IRMO	Iraq Reconstruction Management Office
JCC-I/A	Joint Contracting Command – Iraq/Afghanistan
PHC	Primary Healthcare Center
PWC	Public Warehousing Company
QAR	Quality Assurance Representative
TO	Task Order

Appendix C. Contract History of Medical Equipment Sets

- The initial requirement for medical equipment sets for the PHCs was issued to Parsons by Task Order (TO) #4 dated May 11, 2004. TO #4 was a Design-Build TO that provided Parsons with a Limited Notice to Proceed to provide standard designs for Health Care Clinics of three distinct designs as follows:
 - Option 1 – Model Clinic
 - Option 2 – Model Clinic with Teaching Facilities
 - Option 3 – Model clinic Emergency and Labor Facilities

Included in this TO was a generic sample of the type and quantity of equipment to be provided, with specific equipment types/models and procurement method to be developed by the contractor (Parsons). The TO required the contractor bid the equipment items as optional Contractor Line Item Numbers (CLINs) within their proposal and indicated that upon completion of the evaluation, the government will make a decision as to how the equipment items will be procured.

- Modification #02 dated June 20, 2004, to TO#4 required the contractor to provide a price proposal for an attached generic list of medical and dental furnishings and equipment for the PHCs and added funding in the amount \$50,000,000 for the equipment CLINs. This Modification stated that the equipment items will be bid as an option that can be exercised at the Government's discretion.
- Modification #04 dated July 27, 2004, to TO#4 increased funding for medical and dental furnishings and equipment optional CLINs by \$25,000,000 for a new funding total of \$75,000,000.
- Modification #08 dated September 23, 2004, to TO#4 removed the generic equipment lists included in modifications #02 and #04 in their entirety and replaced with detailed medical equipment lists identified as List A and List B which showed the equipment required for each type of PHC. These lists included equipment for 150 PHCs broken out as follows:
 - 110 Type A (Standard model clinics)
 - 21 Type B (Clinic with teaching facility)
 - 19 Type C (Clinic with emergency and labor facilities)

This modification also required the contractor to provide a cost proposal for the equipment lists not later than October 21, 2004.

- Modification #12 dated October 20, 2004, to TO#4 definitized the design and construction work for 41 PHCs located in Central Iraq and states the remaining 109 PHCs will be definitized in TOs #11 and #12. This modification stated that definitization negotiations for the equipment CLINs would be completed at a later date.
- TOs #11 and #12 both dated October 20, 2004, were issued for construction of 49 PHCs in Northern Iraq and 60 PHCs in Southern Iraq respectively. Both TOs stated that definitization related to equipment would occur at a later date.

- Modification #13 dated December 7, 2004, to TO #4 gave the contractor the Notice to Proceed on the purchase of medical equipment with a Not To Exceed (NTE) amount of \$50,000,000. This modification, while not specifically stating so, references a Purchase Request and Comment that appeared to add medical equipment for a Teaching Academy, thus increasing the total number of medical equipment sets to be purchased to 151.
- Definitization of the medical equipment costs occurred on December 26, 2004, at \$70,359,014 for 151 medical equipment sets, by Modification #14 to TO#4 and Modifications #01 to TOs #11 and #12 as follows:
 - \$18,962,505 for 42 medical equipment sets in Central Iraq (includes a medical training academy)
 - \$23,289,823 for 49 medical equipment sets in Northern Iraq
 - \$28,106,686 for 60 medical equipment sets in Southern Iraq

The TOs stated that the definitized amount included estimated cost and fee associated with the purchase, logistical effort, installation and testing of equipment, training of clinic personnel and 12-month warranty. The TOs also contained an agreement on payment for the medical equipment which stated payment would be made as follows:

- 30% of cost paid upon placement of the equipment order
 - 50% of cost paid upon shipment of the equipment
 - 10% of cost paid at time of product installation or delivery
 - 10% of costs paid upon acceptance by Project and Contracting Office (PCO)
- On September 8, 2005, modification was issued that formalized a stop work order on construction of 8 PHCs. This stop work is for construction only, no change made to medical equipment purchases.
 - On October 22, 2005, Contractor was issued a stop work order on construction of 1 PHC.
 - On February 16, 2006, Contractor was issued a stop work order on construction of 20 more PHCs. No change to the medical equipment purchases.

- On March 3, 2006, Contractor was issued a stop work order on construction of an additional 101 PHCs, leaving only 20 PHCs remaining for construction. The TOs directing the stop work stated that Parsons shall coordinate with the Project and Contracting Office (PCO) to deliver previously purchased and shipped medical and collateral equipment for the terminated PHCs. The TOs also required Parsons to provide close-out documents to include:
 - Warranty Information and Mechanical equipment serial numbers for all purchased equipment (2 sets)
 - List of supplies for material and equipment (2 sets)
 - Master set – medical equipment training manuals A-B-C (1 set)
 - Medical Equipment Turnover/Commissioning manuals (2 sets)
 - Preventative maintenance plan (2 sets)
 - List of purchase equipment/materials (2 sets)

Appendix D. Organizations

Organizations Responsible for Contract Management. Three organizations have responsibility for management of the Parsons contract: U.S. Army Corps of Engineers Gulf Region Division-Project and Contracting Office (GRD-PCO), Iraq Reconstruction Management Office (IRMO), and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). However, during the first 21 months of the contract, the Project and Contracting Office (PCO) and the U.S. Army Corps of Engineers Gulf Region Division (GRD) were separate organizations. On December 4, 2005, the PCO was merged GRD to form GRD-PCO.

Project and Contracting Office (PCO). National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, established the PCO and directed the PCO to provide acquisition and project management support for activities in Iraq. On June 22, 2004, the Deputy Secretary of Defense established the PCO within the Department of the Army and directed the PCO to provide support for all activities associated with financial, program, and project management for both construction and non-construction IRRF activities.

U.S. Army Corps of Engineers Gulf Region Division (GRD). GRD provides engineering services in the Iraq combat theater to Multi-National Force-Iraq and the Iraqi government with planning, design, and construction management support for military and civil infrastructure construction. PCO delegated contract administration for contract W914NS-04-D-0006 to the U.S. Army Corps of Engineers, Gulf Region Central-Baghdad on September 18, 2004. On the same day, PCO delegated administrative contracting officer (ACO) authority to the Director of Contracting, U.S. Army Corps of Engineers, Gulf Region Central-Baghdad.

Iraq Reconstruction Management Office (IRMO). The Iraq Reconstruction Management Office has the responsibility to approve contracts. National Security Presidential Directive 36, “United States Government Operations in Iraq,” May 11, 2004, established the IRMO within the Department of State and directed that organization to facilitate the transition in Iraq. IRMO reports to the Chief of Mission in Iraq.

Joint Contracting Command-Iraq/Afghanistan (JCC-I/A). The head of contracting activity, JCC-I has the responsibility to award and negotiate contracts. The JCC-I was established in 2004 to consolidate contracting activities and reports through the Deputy Assistant Secretary of the Army (Policy and Procurement) to the Assistant Secretary of the Army for Acquisition, Logistics, and Technology. JCC-I/A mission in Iraq is to provide responsive operational contracting support to the Chief of Mission and Multi-National Forces - Iraq to efficiently acquire vital supplies, services and construction in support of the Coalition Forces and the relief and reconstruction of Iraq.

Other Organizations Discussed in this Report

Defense Contract Management Agency (DCMA). DCMA is an independent combat support agency within the Department of Defense (DoD) which supports contract administration through-out DoD. At the Abu Ghraib warehouse DCMA had Quality Assurance Representative (QARs), assigned full-time to the warehouse, who had the receipt/acceptance responsibility for contractor deliveries to the warehouse for those

contracts that DCMA was delegated administrative contracting receipt/acceptance authority.

Parsons Global Services, Inc. Parsons is the company awarded Contract Number W914NS-04-D-0006 that is discussed in this report. According to the Parsons web site:

Founded in 1944, Parsons is one of the largest 100% employee-owned engineering and construction companies in the United States, with revenues exceeding \$3 billion in 2005. We surmount the toughest logistical challenges and deliver landmark design-build projects across the globe. Parsons provides facility and infrastructure solutions through superior program management and technology-based approaches. Our ability to plan, design, construct, and operate diverse facilities and infrastructure systems has satisfied both government and industrial clients' needs for over 60 years. Our 10,000 employee-owners, located worldwide, team with customers and stakeholders while providing dependable services. We measure our success one project at a time by exceeding expectations and satisfying our customers.

Public Warehousing Company (PWC) Logistics. Public Warehousing Company (PWC) Logistics is the contractor that operates the U.S. government controlled warehouse in Abu Ghraib, Iraq. According to their web site, the PWC Group was established in 1979 and provides leading edge supply chain, e-commerce, customs, price research and decision support solutions to private and public sector entities worldwide. PWC is publicly traded and is currently listed on the Kuwait Stock Exchange with a market capitalization of 350 Million US Dollars.

Abu Ghraib, Warehouse. The Abu Ghraib warehouse is a GRD-PCO controlled PWC Logistics contractor operated warehouse complex located in a self-contained compound (former Iraq T55 Tank Factory) in Abu Ghraib, Iraq. The warehouse has the mission to support GRD-PCO logistics mission to receive, store, and ship non-reconstruction materials throughout Iraq. The warehouse complex has approximately 750,000 sq/ft of warehouse floor space and 2,300,000 sq/ft of improved outside staging area.

Appendix E. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,

Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on International Operations and Terrorism

 Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Federal Financial Management, Government Information and International Security

 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

 Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

 Subcommittee on Management, Finance and Accountability

 Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

Appendix F. Audit Team Members

This report was prepared and the audit conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Wilson D. Haigler, Jr

James B. Pollard

Ronald Lee Rembold

William E. Shimp

Frank W. Slayton

Clifton E. Spruill

Jack A. Van Meter

Management Comments

Iraq Reconstruction Management Office



*Embassy of the United States of America
Baghdad, Iraq*

9 July 2006

INFORMATION MEMORANDUM

TO: Chargé d'Affaires - David M. Satterfield
THROUGH: IRMO Director – Joseph A. Saloom III
FROM: IRMO Health – Dr. Jon Bowersox
SUBJECT: SIGIR Report 06-025, PHC Medical Equipment Audit

This audit is an accurate accounting of the current disposition of the 151 medical equipment sets to be installed in the Primary Healthcare Centers (PHC) being constructed with IRRF II funding. As stated in this audit, 20 of the equipment sets have already been installed in complete or nearly complete healthcare centers. Six of these have already been accepted by the Ministry of Health. Once all construction is complete, the remaining 14 will also be transferred to the Ministry.

As noted in this report, on 20 June 2006, a Congressional Notification was issued to redistribute \$62.3 million in IRRF II funding to finish the construction of 121 PHCs. When a healthcare center is completed, the full medical equipment set will be installed and commissioned.

The reported damage to equipment sets will be assessed by GRD/PCO to determine if shortages exist. A balance of up to 10 sets will be available to transfer to the Ministry of Health to meet their most urgent needs.

- 2 -

Drafter:	IRMO Health: Dr. Jon Bowersox	914-360-3663
Clearer:	IRMO CoS: D.Harris	(ok)
	GRD/PCO: P. Williams	(ok)

Management Comments

Joint Contracting Command-Iraq/Afghanistan



Reply to
FIJC-CG

HEADQUARTERS
JOINT CONTRACTING COMMAND-IRAQ/AFGHANISTAN
BAGHDAD, IRAQ
APO AE 09348



7 July 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction

SUBJECT: Audit of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006

1. Refer to draft audit report, same subject, dated June 26, 2006. The draft was provided for review and comment by IRMO, GRD/PCO and JCC-I/A.
2. Recommendations addressed to JCC-I/A were as follows with responses.

Recommendation: In coordination with GRD/PCO delegate DCMA the responsibility for the official inspection, inventory and receipt of Parsons medical equipment still being delivered to the PWC Logistics warehouse.

JCC-I/A Response: Non-concur. The Memorandum of Agreement between DCMA and JCC-I/A does not include construction. The medical equipment for the Primary Healthcare Centers is equipment delivered by the contractor for installation in what were to be completed construction projects. Therefore, another alternative is being considered that will include the PWC Logistics contractor and PCO.

Recommendation: In coordination with GRD/PCO and DCMA, obtain the completed inventory listing of all medical equipment items currently stored in the PWC Logistics warehouse and take appropriate actions to recoup from Parsons the cost of all items found to be missing or damaged.

JCC-I/A Response: Concur. However, the coordination will be with GRD/PCO and the entity who conducts the inventory of the medical equipment items.

Recommendation: In coordination with GRD/PCO work with appropriate equipment manufacturers and/or secondary warranty grantors to clarify the status of equipment warranties.

FIJC-CG

SUBJECT: Audit of the Medical Equipment Purchased for the Primary Healthcare
Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-
D-0006

JCC-I/A Response: Concur.



DARRYL A. SCOTT
Major General, US Air Force
Commanding

Management Comments

Gulf Region Division, U.S. Army Corps of Engineers



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09316

CEGRD-CG

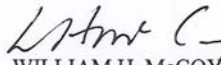
10 July 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, US Embassy Annex,
M-202, Old Presidential Palace, APO AE 09316

SUBJECT: Draft SIGIR Audit Report – Audit of the Medical Equipment Purchased for the
Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number
W914NS-04-D-0006 (SIGIR-06-025)

1. This memorandum provides the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.
2. The Gulf Region Division generally concurs with the conclusions and recommendations contained in the draft report with comments. We have provided additional information regarding the discussion. See the enclosure for details.
3. We appreciate your assessment of the subject project. Thank you for the opportunity to provide our written comments for incorporation in the final assessment report.
4. If you have any questions, please contact Mr. Eric Tichay at (540) 665-5021 or his email Eric.P.Tichay@tac01.usace.army.mil.

Encl


WILLIAM H. McCOY
Major General, USA
Commanding

COMMAND REPLY

SIGIR Draft Audit Report – Audit of the Medical Equipment Purchased for the Primary Healthcare Centers Associated with Parsons Global Services, Inc., Contract Number W914NS-04-D-0006 (SIGIR-06-025)

Additional Comments

Page 3.

Draft Report. Where are the medical equipment sets located and which organizations maintain physical control of the assets?

GRD-PCO Comments. As of 30 June 2006, 130 sets or portions of the sets of medical equipment were received by, and are under the physical control of the Public Warehousing Company (PWC) Logistics at Abu Ghraib Warehouse (AGW).

Draft Report. How and when will the U.S. government transfer the equipment?

GRD-PCO Comments. The medical equipment will be transferred in sets to the PHC project sites as the construction punch list phase is completed. The delivery and installation of medical equipment should not interfere with the completion of the punch list items. The equipment will not be transferred to the PHC sites until the installation contracts are awarded to medical equipment agents certified to perform the installation.

Draft Report. What are the “lessons learned” from the management and execution of the non-construction process and practices related to this contract?

GRD-PCO Comments. Overall, separate contracts should be used for the construction and the supply of equipment for projects like the PHCs. Separate contracts for construction and equipment will avoid problems that could result from construction, logistics, or equipment installation issues. Also, the expected cost savings from the bulk equipment purchase may not be realized when the contractor was awarded a cost-plus contract with a base fixed fee and award fee. A Firm Fixed Price (FFP) contract that would equip the PHCs as the actual construction progressed would be more advantageous to the Government. Further, the procedure used to receive the medical equipment at AGW should be improved to maintain property accountability. Operations and logistics decisions for future projects will take into account regulatory guides to maintain property accountability. Written plans must be periodically reviewed and revised to adapt to changing conditions. Plans should be reviewed by all interested principles and higher command levels with the requirement to approve or modify the plan as necessary. Evaluating the effect of de-scoped projects that change the vendor’s contractual requirements is necessary to ensure that the proper contract modifications are made to account for property accountability procedures.

Enclosure

Page 7.

Draft Report. Parsons and/or a Parsons Sub-contractor have physical control of the remaining 16 sets of medical equipment until delivery to the warehouse.

GRD/PCO Comments. The contractor has completed delivery of the medical equipment to PWC at AGW. GRD-PCO asked the contractor to account for the equipment shortages and provide the packing lists for the crates received, which is part of the contract closeout. The contractor agreed on 5 July 2006 to provide the necessary information. GRD-PCO will proceed with the property accountability process when the information is received from the contractor.

Draft Report. While the U.S. government has physical control over the medical equipment sets delivered to the PWC Logistics warehouse, neither the JCC-I/A nor the GRD/PCO took appropriate action to ensure that the equipment delivered to the warehouse by Parsons was properly inspected, receipted for or accepted by the U. S. government.

GRD/PCO Comments. The draft report stated that neither JCC-I/A nor GRD-PCO took appropriate actions to ensure that the medical equipment delivered to AGW was properly inspected, receipted or accepted. Actions to ensure that the equipment is inspected and receipted are ongoing. The receiving process has taken several months due to the amount of equipment involved and the work conditions at AGW. Further, the movement into storage from the contractor's control took longer than expected. For the draft report to imply that GRD-PCO did not plan to account for the equipment is not accurate. GRD-PCO has always planned to inspect all equipment and identify any damaged equipment. It was originally intended to perform a complete detailed inventory when the equipment was transferred and installed at each PHC site. This process would permit the proper certified staff to inspect and commission the medical equipment in accordance with the manufacturer's contract requirements. The equipment inventory will be performed to account for the condition and quantity of equipment received from the contractor. GRD-PCO is coordinating with the Contracting Officer to determine if the contractor will perform a joint inventory, or if GRD-PCO should proceed without the cooperation of the contractor. There are over 2,000 crates received at AGW and we estimate a 100 percent inventory will take up 3 months to complete.

Recommendation and Command Comments

Page iii. and iv. Recommendations

2. We recommend that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers:

Recommendation a. In coordination with JCC-I/A and DCMA, arrange for a complete inventory and inspection of all the medical equipment currently stored in the PWC Logistics warehouse as soon as possible. A listing of missing or damaged items should be prepared when completed.

Actions Taken. Concur. GRD-PCO in coordination with JCC-I/A, has requested that the Contracting Officer arrange a joint equipment inventory with the contractor. If the joint inventory can not be performed with the contractor, GRD-PCO will select an alternative approach to conduct the inventory and account for the quantity and condition of all medical equipment delivered by the contractor. We estimate that a 100 percent inventory of all medical equipment received at AGW will take up to 3 months to complete.

Recommendation b. In coordination with JCC-I/A and DCMA, arrange for a knowledgeable Parsons or equipment manufacturer representative to be present during the inspection of the condition of the equipment because of the sensitive and specialized nature of medical equipment.

Action Taken. Concur. GRD-PCO is currently evaluating the alternatives to inspect the condition of the equipment. At this time, we believe that the most effective and cost efficient method to inspect the equipment condition is to arrange for the equipment installer, possibly the manufacturer, to perform the inspection task.

Recommendation c. In coordination with DCMA, arrange for the proper recording of inventoried medical equipment into the appropriate government property management system.

Action Taken. Concur. GRD-PCO will properly record the inventoried medical equipment into the appropriate property management system at the time the medical equipment is inspected and inventoried. GRD-PCO will coordinate this action with DCMA if they are delegated authority by JCC-I/A.